

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 IO-14 IGA-02 L-03
AGRE-00 ABF-01 AID-05 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 PA-02 PRS-01 /126 W
-----124589 221354Z /42

R 221059Z DEC 77
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 8205
INFO AMEMBASSY BUDAPEST

UNCLAS NEW DELHI 18288

E.O. 11652: N/A
TAGS: ETRD IN HN
SUBJECT: INDIA AND HUNGARY SWITCH TO HARD CURRENCY TRADE

REF: NEW DELHI A-219 OF NOVEMBER 23

1. ON DECEMBER 15 THE HUNGARIAN MINISTER OF FOREIGN TRADE, JOZSEF BIRO, SIGNED A NEW THREE-YEAR AGREEMENT WHICH CALLS FOR THE ABANDONMENT OF THE RUPEE CLEARING ACCOUNT SYSTEM FOR TRADE BETWEEN THE TWO COUNTRIES. UNDER THE AGREEMENT WHICH ENTERS INTO EFFECT ON JANUARY 1, 1978, EXPORTS FROM EITHER COUNTRY WILL BE PAID FOR IN HARD CURRENCY.

2. BECAUSE OF PAST AID AND TRADE PRACTICES, A SEPARATE AGREEMENT PROVIDES THAT (1) RUPEE CREDITS WHICH INDIA HAS ACCUMULATED THROUGH RECENT TRADE SURPLUSES WILL SIMPLY BE DRAWN DOWN BY EXPORTS FROM HUNGARY; (2) REPAYMENTS OF INTEREST AND PRINCIPAL ON OUTSTANDING AID CREDITS WILL CONTINUE TO BE MADE IN NON-CONVERTIBLE INDIAN RUPEES; AND (3) ALL CONTRACTS CONCLUDED UNTIL THE END OF 1977 WILL CONTINUE TO BE IMPLEMENTED IN INDIAN RUPEES. ACCORDING TO THE PRESS, INDIA'S CURRENT DEBT TO HUNGARY IS RS. 300 MILLION (DOLS35 MILLION
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AT RS. 8.60 EQUALS DOLS1.) AND WILL BE REPAID BY 1988.

3. BIRO TOLD THE PRESS THAT THE SWITCH TO HARD CURRENCY PAYMENTS WOULD ACCELERATE THE TEMPO OF TRADE AND ECONOMIC COOPERATION BY INCREASING COMPETITION AND ELIMINATING BUREAUCRATIC HURDLES. HE ALSO ANNOUNCED THAT HIS DELEGATION HAD SUBMITTED TO THE GOI A PROPOSAL FOR JOINT COLLABORATION

IN THE MANUFACTURE OF 200-SEAT BUSES AND COACHES. THE TWO SIDES ALSO REPORTEDLY DISCUSSED COOPERATION IN POWER GENERATION AND STAINLESS STEEL, AS SUGGESTED BY THE INDIANS; AND SHOE MANUFACTURE, TEXTILES, AND TRANSPORT EQUIPMENT, AS MENTIONED BY THE HUNGARIANS.

4. THE AGREEMENT PROVIDES FOR AUTOMATIC ANNUAL EXTENSIONS UNLESS EITHER PARTY GIVES 90-DAY ADVANCE NOTICE.

5. COMMENT: IN THE LAST FEW YEARS, TRADE BETWEEN INDIA AND HUNGARY HAS BEEN ABOUT HALF OF THE ANNUAL TRADE PLAN TARGETS. ON A TOTAL TURNOVER OF AROUND DOLS41 MILLION IN 1977, COMPARED TO A PLAN PROVISION OF DOLS83 MILLION, INDIA IS EXPECTED TO HAVE A POSITIVE TRADE BALANCE OF DOLS12 MILLION. THE REASON FOR THESE SHORTFALLS IS NOT CLEAR, BUT IT APPEARS THAT HUNGARY HAS BEEN UNWILLING TO MEET EXPORT TARGETS. THE HUNGARIAN GOVERNMENT HAS SOUGHT THE END OF RUPEE TRADE FOR SOME YEARS AND MAY ITSELF NOW SHIFT TO OTHER SUPPLIERS. IF THE PATTERN FOLLOWS THAT OF INDO-YUGOSLAV TRADE AFTER THE ADOPTION OF HARD CURRENCY TRADING IN 1973, TRADE LEVELS WILL FALL AT FIRST BUT THEN RETURN TO STRONGER LEVELS AS THE TRADING PARTIES ADJUST TO THE NEW ENVIRONMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, CURRENCIES
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977NEWDE18288
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770477-1087
Format: TEL
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771226/aaaaavvj.tel
Line Count: 85
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 071349fe-c188-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 NEW DELHI A-219
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 146776
Secure: OPEN
Status: NATIVE
Subject: INDIA AND HUNGARY SWITCH TO HARD CURRENCY TRADE
TAGS: ETRD, IN, HU
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/071349fe-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009